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DEPT FOR SCA/RA, SCA/A, EEB, EEB/ESC/IEC (GRIFFIN)
DEPT PASS AID/ASIA/AA ELLIS, AID/ASIA/SCA
DEPT PASS USTR FOR LILIENFELD AND KLEIN
DEPT PASS OPIC FOR ZAHNISER
DEPT PASS TDA FOR STEIN AND GREENIP
CENTCOM FOR CG CFC-A, CG CJTF-76, POLAD, JICENT
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TREASURY FOR ABAUKOL, BDAHL, JCASAL, AND MNUGENT
MANILA PLEASE PASS ADB/USED
PARIS FOR USOECD/ENERGY ATTACHE
OSD FOR SHIVERS, SHINN
COMMERCE FOR DEES, ALAM, HAMROCK, AND FONOVICH

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SUBJECT: AFGHANISTAN GEMSTONE OUTLOOK IN 2009 AND BEYOND SHINES BRIGHTER

¶1. (U) Summary. Worldwide demand for colored gemstones has increased in recent years. Such a development bodes well for Afghanistan, a land with an abundance of emeralds and rubies, two gemstones that rival diamonds in exclusivity and value. The gemstone industry in Afghanistan suffers from a lack of capacity and infrastructure as well as antiquated techniques, a lack of formal regulation, and undesirable/illicit management elements. Afghanistan lacks expertise in high-quality gem-cutting; as a result, most current production is smuggled to Pakistan for finishing. Notwithstanding these difficulties, a number of organizations, donors, and governments have recognized the sector holds promise in providing an avenue towards employment and revenue generation in Afghanistan. Their efforts, although nascent may spur additional support and transformation. End Summary.

Overview of Gemstone Sector

¶2. (U) Gemstones, notably rubies, emeralds, aquamarine, tourmaline, lapis lazuli, and kunzite are prolific in Afghanistan. Significant deposits are concentrated in the northeastern provinces of Panjshir, Nuristan, Konar, Badakhshan, Baghlan, Kunduz, and Kabul. Unfortunately, the industry in Afghanistan is mired in century's old, crude, dangerous, and resource-damaging techniques, and very little if any foreign investment has taken root. Deposits are exploited by local people, often in cooperation (in some cases unwilling) with mafia-like traders and regional tribal leaders. There is some evidence that gemstone smuggling is aiding the insurgency.

¶3. (U) After extraction, all but the highest quality stones are sold to local traders who smuggle them to Pakistan, typically Peshawar, where cutting and polishing takes place, adding up to five times to their value. Most experts estimate 80 percent to 90 percent of all gemstones follow this route and thus do not contribute to Afghan employment, revenue collection, or value-chain processes. High quality stones are brought to Kabul and sold to a handful of internationally registered gem traders. Gemstones that are legally exported have their value estimated by the Ministry of Mines (MOM),

which imposes a 15 percent royalty and a 16 percent export tax. When these two taxes are combined with a variety of "unofficial" taxes, a typical high-value gemstone may have as much as 50 percent of its value taxed, a significant deterrent to legal exportation of gemstones from Afghanistan. In contrast, royalty and export taxes in Pakistan currently total 12 percent, where the industry employs directly or indirectly 20,000. 60 percent to 80 percent of the gemstones are of Afghan origin.

¶4. (U) Worldwide demand for all colored gemstones is estimated at $5 billion dollars with the United States representing approximately 20 percent of that demand. According to a Development Associates International (DAI) study commissioned by USAID in 2007, due to the illicit nature of gemstone trade in Afghanistan, current yearly production estimates vary widely, from $10 million to $160 million. However, if resources where properly exploited, production could jump to $300-$400 million. Afghan rubies, emeralds and lapis lazuli are considered among the best in the world; prices for top quality rubies and emeralds rival and exceed that of diamonds on a per carat basis. Clearly the gemstone sector in Afghanistan is troubled. Overcoming misguided government over-regulation and traditional mindsets will not be easy, but momentum is shifting towards bringing this sector into the modern age (or at least the 20th century)

Turquoise Mountain Foundation (TQMF) Efforts

¶5. (U) TQMF has an established a gem cutting and polishing school under its jewellery program. All the students in the institute also undergo rigorous English, Dari, mathematical, business, and computer training over a 36 month period. At the end of the 36 month period,

the students receive a stipend (half of which is paid monthly, other half received lump sum upon graduation) so that they may establish their own businesses or cooperatives, armed not only with specific vocational/trade skills, but also with the other vitally important skills required for success in entrepreneurship. TQMF is planning to expand their gem cutting and polishing school to areas near gemstone deposits. The first such expansion will take place in cooperation with Provincial Reconstruction Team (PRT) Panjshir in late spring 2009.

Working Group Formed

¶7. (U) Embassy Econoffs and TQMF have organized a Gemstone Working Group (GWG), which includes participation from the World Bank's Sustainable Development of Natural Resources Project, Project Management Unit (PMU) embedded within the MOM, USAID's Economic Growth and Afghanistan's Small and Medium Enterprise Development (ASMED) programs, and the Export Promotion Agency of Afghanistan (EPAA). Several noteworthy projects were discussed.

¶8. (U) ASMED has recently invested $300K in conjunction with an Afghan company (total invested $3.8 million) for the establishment of small-scale mining operations and lapidary training in Baghlan province. Implementation of this project will take place in 2009. The World Bank is sending international mine safety experts in early to 2009 to build capacity within this discipline at the Afghan Geological Survey (AGS). Communities and Artisanal Small Scale Mining (CASM), a global networking and coordination facility, currently chaired by the UK's Department for International Development (DFID) is also considering entering Afghanistan to set up gem cutting and polishing facilities.

¶9. (U) EPAA reiterated that the gemstone sector had been identified as one of the four key sectors the EPAA will focus on in 2009, and it plans on opening gemstone centers in Kunduz and Badakhshan provinces in 2009 and 2010 respectively. The centers being supported by the German as Association for Technical Cooperation (GTZ), the main investor in the EPAA. They will focus on capacity building in cutting and polishing, which will expand the human resource capital necessary in establishing value added supply chain

operations in the sector.

2009 exhibits more luster, but gaps remain

¶10. (U) While hurdles to expansion and growth in the sector will undoubtedly take time to overcome, strategies are taking shape that should gradually improve the sector's future. The establishment of training centers and cutting/polishing schools through the efforts of TQMF, US PRT, EPAA, and other entities is the first step toward creating a value added supply chain that can contribute to an economic development. Embassy efforts to promote the need for the formalization of the mineral sector through the establishment of detailed regulations in the Mining Law that specifically address small scale and artisanal mining will continue. The World Bank's PMU team has played a lead role in this endeavor, and regulations have been drafted and are under review.

¶11. (U) For its part, EPAA is participating in industry trade shows in Arizona and Dubai in the coming year to increase interest in Afghan gemstones. Nevertheless, gaps in confronting the challenges posed by inefficient and unsafe extraction techniques, a stultifying regulatory environment, and poor access to electricity must be confronted in order for the industry to begin the long road toward being a commercially-viable export-oriented industry.
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